

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

YOUR INDUSTRY AND USDA'S AGRICULTURAL MARKETING SERVICE

S. R. Smith, Administrator
Agricultural Marketing Service, U. S. Department of Agriculture

The "winds of change" cited by President Kennedy in his recent State of the Union address are well known to all of us connected with the food business. In this business, the winds of change have blown long and strong.

As you bring your 26th annual conference to a close today, you can look back over the years with a good deal of satisfaction. You have been sailing before those winds of change and making good progress. From a small beginning, you have grown into a major industry, utilizing a significant portion of the potato crop. Along the way, you have progressed from a fly-by-the-seat-of-the-pants operation to an impressively scientific processing business.

During those same years, all of us have witnessed a revolution in almost every phase of our every-day lives. Think of what we have gone through! We emerged from a major economic depression, fought a world war, saw the dawn of the atomic age and the space age.

We have watched science transform farming, food processing, transportation, and communication.

We have come to accept as commonplace things that were unknown or little more than on the drawing boards 26 years ago -- things like television, jet planes, super highways, frozen foods -- and the modern supermarket.

At the same time, we have seen a trend emerging in the marketing of farm products that has presented special problems. This is the trend toward concentration -- fewer and fewer and bigger and bigger firms -- in almost every phase but most notably at the retail level. The urge to merge

Talk before the Potato Chip Institute International, Chicago, Illinois,
Thursday, January 31, 1963.

is not unknown in your industry, either.

And the food business today is big business. Retail food sales alone last year amounted to some 54 billion dollars -- not to mention the additional billions of dollars worth of food moved through hotels, restaurants, and institutional outlets. In fact, the food industry is our largest industry, exceeding even the annual gross sales of the U. S. automobile industry.

At the same time, a smaller proportion of our population is engaged in agriculture today than at any time in our history. Farmers now use new production techniques, higher-yielding varieties, and mechanized equipment to turn out an abundance of food sufficient to meet all our domestic needs and still have large quantities for helping less fortunate people abroad.

So now our attention focuses on marketing. Much more effort is going into grading, sizing, packaging, processing, protection during transit, and generally presenting the consumer with products that will win her acceptance. All of this, of course, costs more, too, and marketing charges now account for an average 62 percent of the consumer's food dollar.

There are several other pertinent reasons for the emphasis upon marketing in the food industry. Personal incomes have been rising steadily since before World War II, resulting in an up-grading of consumer demand for foods; there are fewer people living in rural areas, leading to an increased demand for convenience foods; and consumers today are more discriminating than ever before.

All of these changes have brought forth a virtual transformation in food marketing. The mass distribution system that has developed resembles very closely the merchandising system for industrial products and all that this implies -- the specialization, the mechanization, the integration, the mergers, the national market.

At the retail level, 85 to 90 percent of all grocery sales are handled by large-scale retail organizations, with centralized procurement. Large supermarkets now typify the retail medium, as opposed to the small corner grocery that typified the retail food market of 25 years ago.

The one remaining bottleneck at the supermarket, the check-out counter, may soon be eliminated through automation which will also provide the retail distributor with inventory controls and re-order information and will facilitate pricing of the merchandise throughout the retail center. When this merchandising break-through occurs, the pressure will be even greater upon suppliers to provide the continuity of quantity and uniformity of quality and packaging demanded by an almost completely automated marketing system.

Your industry has changed, too. The equipment you use, your processing methods, packaging, and merchandising practices have all changed. Even your raw materials have changed as new potato varieties and new cooking oils are developed. One company, whose advertisements I hear in Washington, now woos consumers with the pitch that its chips are cooked in poly-unsaturated oil!

What does all of this mean to you as businessmen -- to us who perform a public service? To me it means that we must constantly try to assess the changes that are going on around us -- attempt to see where they are leading and what must be done to meet them. If you want it in the rather high-flown language of a prominent educator:

"In our dynamic world, new conditions and their resulting problems are constantly demanding new ways of structuring knowledge, new hypotheses and new models, and new proposals for solutions to imbalances and frustrations."

In the Agricultural Marketing Service, and in the rest of the Department of Agriculture, we are attempting to do just that.

Our work in the marketing field goes back a long way. As a matter of

fact, this year we're celebrating the 50th anniversary of marketing work in USDA. The first Office of Markets -- a predecessor of the Agricultural Marketing Service -- was established in the Department in 1913. And we've seen a lot of change since then.

Our services are directed toward helping to give the American public the best possible marketing system that can be devised. We provide the services, regulation, and research needed to help modernize, streamline, and grease the wheels of the whole vast marketing mechanism -- keep it moving, quickly, efficiently and with the least possible waste.

I know that you are familiar with -- and make good use of -- many of these services, such as the market news reports that keep you informed on current supplies of potatoes, demand, prices, and movement. I expect that you also make use of the crop reports, now put out by the Statistical Reporting Service, to keep informed on probable size of coming supplies, overall trends, and the like.

Over the years, you have put the marketing research work conducted by AMS and its predecessor agencies to good use, too. In fact, I believe that many of the common practices of your industry today are based on this research.

Dr. R. C. Wright, now retired, was a pioneer in this work. A number of his reports were published in the "Potato Chipper." Perhaps you recall some of this work on the effects of storage temperatures on chipping quality, his studies on potato varieties, on cooking oils, on specific gravity, on pre-cooking treatments, and his early work on composition which demonstrated how potato starches turned to sugar under low temperatures.

Dr. Peter Heinze and his colleagues in both the Agricultural Research Service and the Agricultural Marketing Service have continued this work. They have, as you may know, contributed much to improving the marketing of

potatoes for chipping purposes. These contributions have included the development and testing of sprout inhibitors, recommendations for shipping and holding equipment and practices that help to maintain quality and hold down waste, and more objective means of identifying chipping quality.

Currently, Dr. Heinze and other AMS marketing researchers are working on a problem that has been of considerable concern to your industry in recent years -- that of internal sprouting. He has already published an interim report indicating that storage at about 55 degrees would largely solve the problem -- but work is continuing and he will shortly be publishing another paper on this subject.

Of course, your own technical director, Dr. Ora Smith, has probably done more work than anyone else in this field, but I'm sure that you are well acquainted with his work. He has also been most helpful in cooperating with our Fruit and Vegetable Division in the development of objective testing methods that could be used in standardization and grading work.

His work on the tape test to determine the presence of glucose, for instance, makes it practical to include a glucose requirement in the proposed U. S. Standards for Potatoes for Processing.

Now he is working, as he has reported to you, on development of a practical fry test and method of color evaluation that could also be incorporated in the proposed standards.

I would like to take just a minute to talk about those proposed standards for potatoes for processing. They were in the talking stage for more than 10 years. Growers wanted them -- processors at first were largely indifferent. But as an ever-growing proportion of the potato crop began going to processors, the need for a more precise means of measuring quality of potatoes for processing kept increasing -- and so did the requests for the standards.

(More)

USDA 285-63

After several preliminary drafts, the proposed standards were issued last August in tentative form. This does not mean that they were officially put into effect, but that we were offering them for industry opinion and comment. A number of processors tried them out -- and in fact several Idaho processors are now buying on the basis of the proposed standards. We received a number of useful suggestions from them and others on ways that the standards could be improved.

We are considering these comments before issuing the standards in final form. The period for comment expired on November 30 -- but we did not hear much from potato chippers. We wish that we had.

However, even after these standards are officially promulgated, it is never too late for changes. All of our grade standards are constantly under review for needed modifications. So if you will try out the new standards and let us know how they work for you, we will be glad to consider making any amendments that you recommend.

Perhaps you will decide that separate standards for potatoes for chipping would be preferable. If so, we would be glad to work with you along those lines.

But we do urge you to consider the position of the potato grower who looks to you as a market for his product. Does it help your relations with him when you buy on the basis of "good chipping quality" and you are the sole arbiter of the meaning of that term? Is it good business practice to have less than complete understanding between you and your suppliers?

As a part of the regulatory services provided by AMS, we have a code of good business practices, issued under authority of the Perishable Agricultural Commodities Act. You are subject to this law if you buy potatoes grown in any State other than the one in which your business is located.

(More)

USDA 285-63

In essence this code of ethics is as simple as "Get what you pay for -- and pay for what you get." Only, as you may have had occasion to find out, it is often not quite so simple as it sounds. This is true especially if the terms of a contract are not clear, specific, and detailed -- and I might add, written -- or when it comes to a judgment on quality. So at times it falls to the PACA man to decide whether or not the buyer did get what he contracted for -- or the shipper did send the quality specified.

If you were to browse through our PACA case records you would find examples of what I am talking about. In one case, for instance, a chipper was ordered to pay for a shipment of potatoes which, it was found, met his purchase specifications but which he said were not "suitable for chipping" -- a requirement he had not specifically set forth. The judicial officer commented that the fact that the company involved was a potato chip company did not automatically mean that the supplier was responsible for furnishing potatoes "suitable for chipping."

On the other hand, in another case, a company did specifically set forth its requirements for potatoes suitable for chipping -- including glucose and specific gravity requirements -- and in a dispute was upheld in its contention that the potatoes furnished did not meet the contract requirements.

It does seem to me that a good set of specific and detailed grade standards could help to minimize such disputes by providing mutually understood terms -- which will mean the same thing to both parties in a deal -- and which could be used as the basis for a contract.

Incidentally, I want to point out that the development of the proposed U. S. Standards for Potatoes for Processing had nothing to do with the proposed National Marketing Order for Potatoes. And we expect to issue the

(More)

USDA 285-63

standards, regardless of whether or not the marketing order goes into effect.

But to go back to PACA matters, this regulatory program -- like the other services of the Agricultural Marketing Service -- was put into effect at the request of producers, processors, and marketers of farm products to further their interests. In issuing the regulations which implement the law and in enforcing them, we are not representing the interests of any one segment of the trade, but the interests of all. We seek the opinions and the suggestions of all -- including yours -- as to what rules will best facilitate trade and be fair to all. Actually, we tailor-make these rules to fit the industry concerned. It is our desire to promote orderly marketing by preventing unfair competition.

In this as in other matters that we have in common, we have much to gain by working together. We are concerned with improving the marketing system for farm products. As both businessmen and consumers, you have a vital stake in this same goal.

Today we focus our attention on adapting our services to keep pace with the rapid changes that are taking place in the marketing system -- even as they are taking place throughout the nation and the world -- and we invite your continued cooperation.

Let us work together toward an ever-better tomorrow -- never fearing the winds of change, but confident that on sound industry and Government cooperation we build our national unity and strength -- and our democratic way of life.

C & R - PREP
FEB 3 - 1965
U.S. DEPARTMENT OF AGRICULTURE
OFFICE OF AGRICULTURAL MARKETING